

# WELLS FARGO

Investment Institute

## Global Manager Research



Any Questions?  
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Advisors

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January 2021

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# Wells Fargo Investment Institute

The Wells Fargo Investment Institute (WFII) is focused on developing and delivering the highest quality investment strategy and research to help investors meet their financial goals.



# WFII Global Manager Research



## Mission statement

*The Mission of Global Manager Research is to improve the probability of a better investment outcome for clients with their unique objectives and circumstances, through the delivery of independent, unbiased, and prudent advice.*

# Our team

## **Varied backgrounds, extensive experience.**

- Over 40 team members focused solely on manager and operational due diligence
- Structured in asset class working groups, with analysts focused on specific sub-asset class coverage
- Dedicated operational due diligence team
- Highly experienced
- Strong credentials
  - Chartered Financial Analyst (CFA) & Chartered Alternative Investment Analyst (CAIA) charter holders
  - Various advanced degrees
- Diverse prior industry experience
  - Institutional investment consultants
  - Equity strategists/analysts
  - Fixed income analysts/traders
  - Hedge fund analysts
  - Compliance/audit/risk specialists
  - Engineers

# Deep research, informed globally

A global presence allows GMR analysts in local markets to gather valuable insights via access to unfiltered local information.



# Distinguishing characteristics

Experienced  
Global Team

*Highly qualified and tenured group of investment professionals*

Well  
Resourced

*Leveraging the significant and comprehensive resources of our parent,  
Wells Fargo & Company*

Research-  
Focused

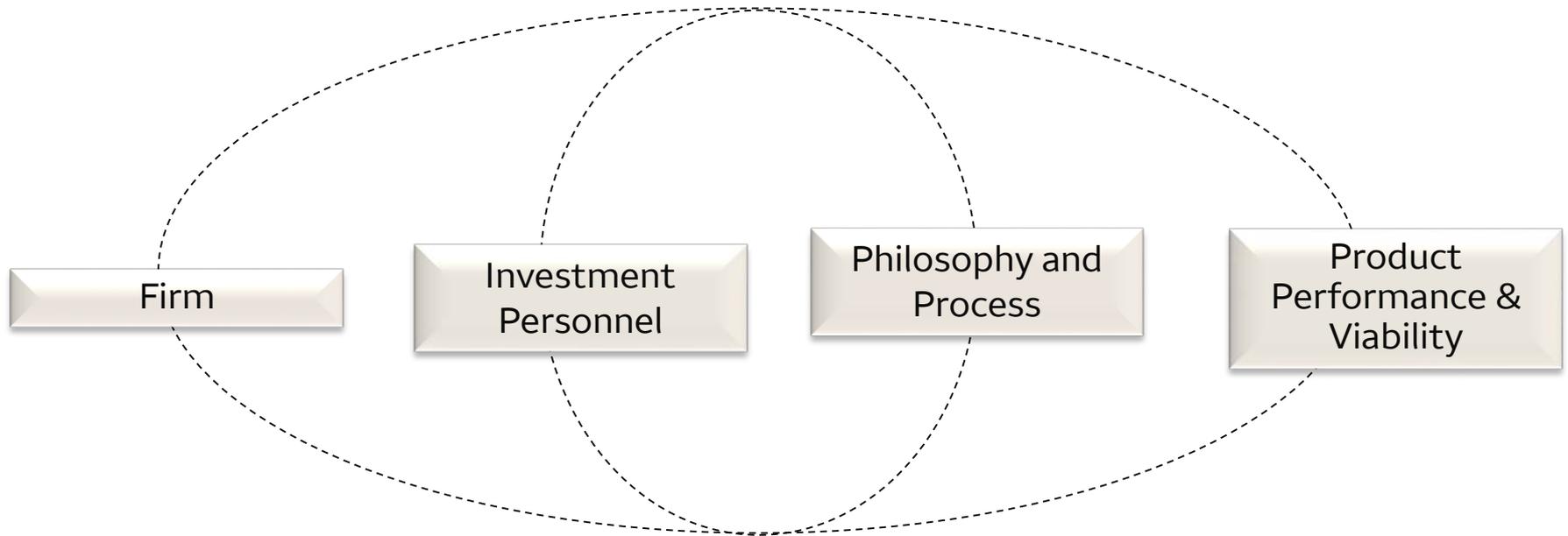
*Strong investment culture and repeatable research process drives  
investment ideas*

Risk  
Managed

*Risk management is an integral part of the Global Manager  
Research process*

# Research philosophy

Differentiating manager skill from luck and style-generated returns is one of our key objectives, as we seek to identify managers that can consistently meet or exceed the expectations set for them.



# Research process

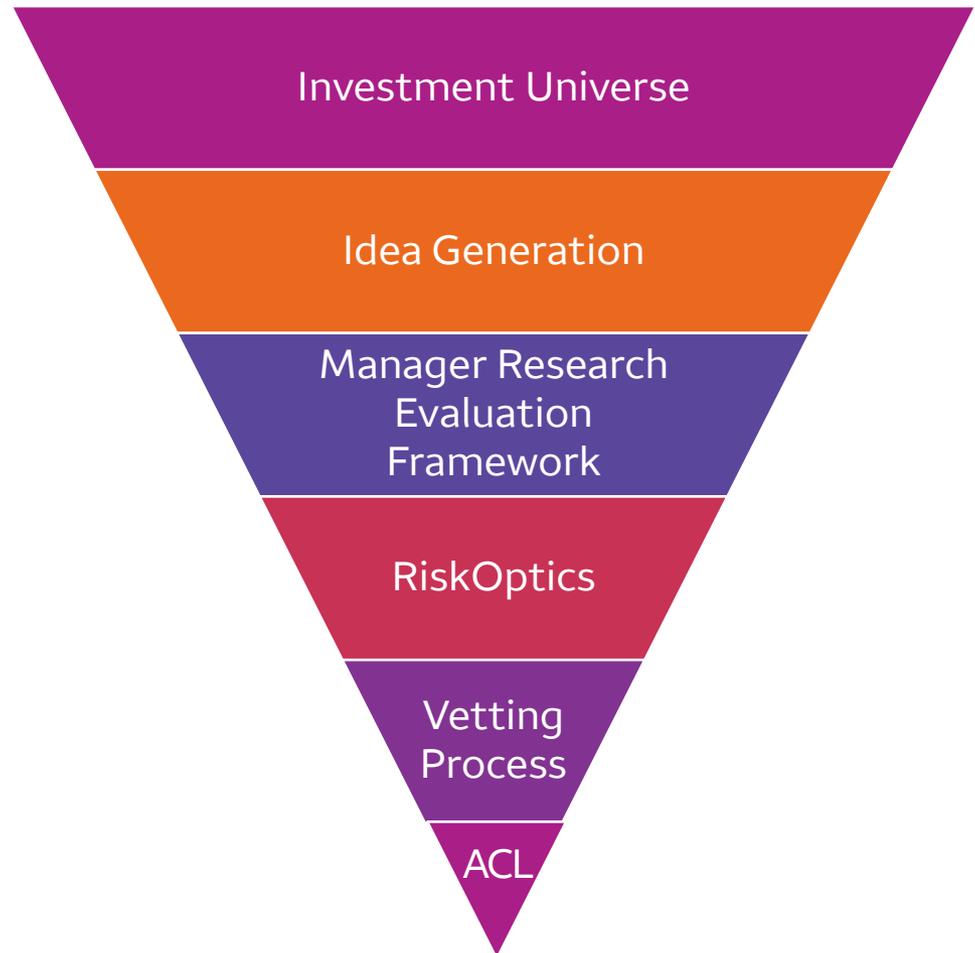
**The universe of money managers is expansive. Consequently, selecting a good manager requires a systematic investment process.**

Our process is:

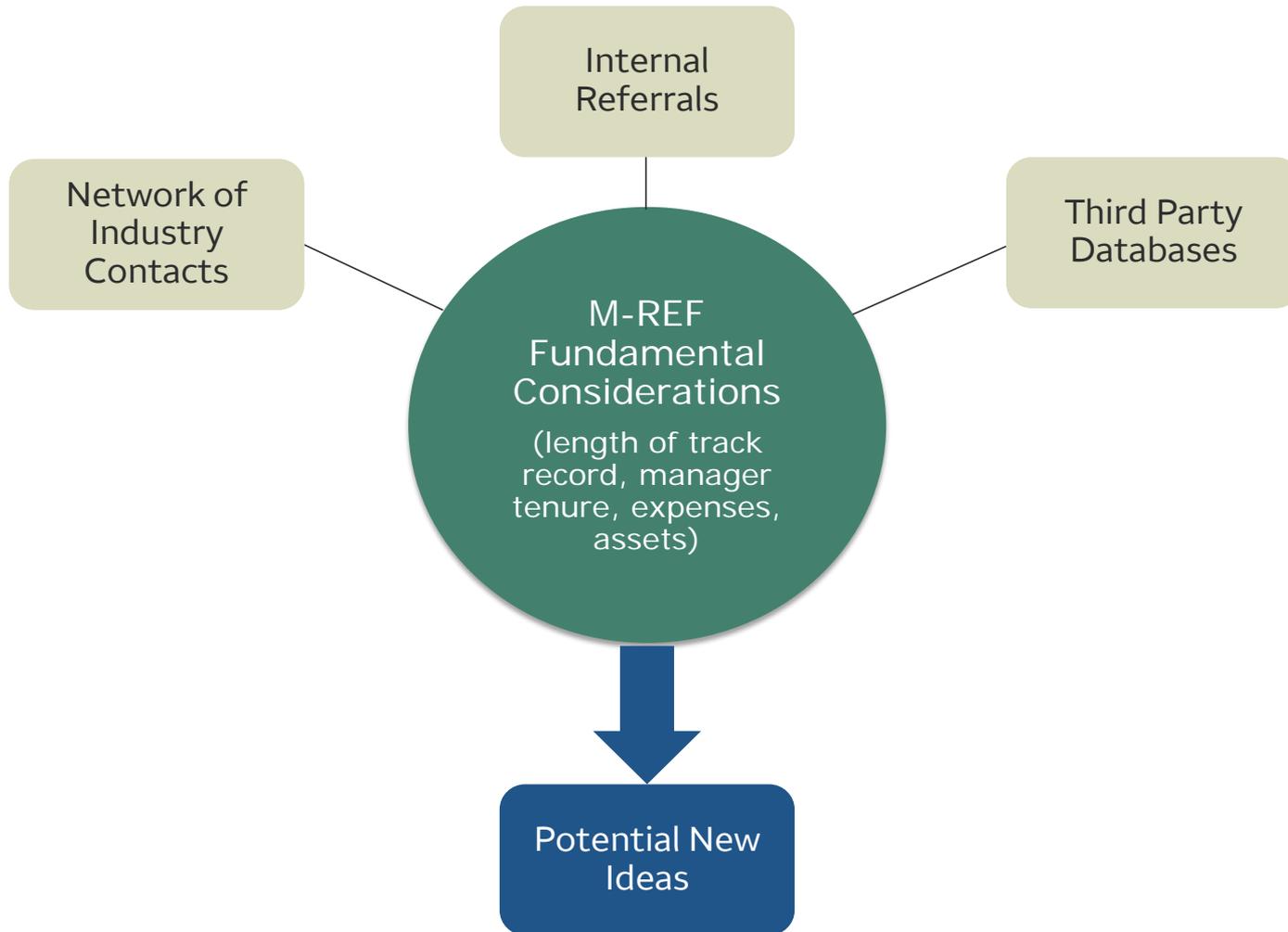
- **Consistently** applied over time
- **Transparent** as to reason for recommendation
- **Objective**, leading to independent investment opinions

## Research process (continued)

- GMR emphasizes both the **art** (qualitative) and **science** (quantitative) when applying the Manager Research Evaluation Framework (M-REF) in selecting managers to comprise our Aggregate Coverage List (ACL).
- The scale of Wells Fargo offers GMR premier access to key investment professionals for these purposes.



# Research process – idea generation



# Research process – M-REF

M-REF is a multifactor research framework consisting of four foundational components, 13 major components and 75 sub-factors.

M-REF Foundational Components	M-REF Major Components
Firm	<ul style="list-style-type: none"><li>▪ Organization</li><li>▪ Business Risk Management</li><li>▪ Executive Personnel</li></ul>
Investment Personnel	<ul style="list-style-type: none"><li>▪ Experience &amp; Depth</li><li>▪ Stability &amp; Incentives</li></ul>
Philosophy & Process	<ul style="list-style-type: none"><li>▪ Investment Philosophy</li><li>▪ Investment Process - Approach</li><li>▪ Investment Process - Research</li><li>▪ Investment Process - Portfolio Construction</li><li>▪ Investment Process - Risk Management</li></ul>
Product Performance & Viability	<ul style="list-style-type: none"><li>▪ Risk &amp; Return Attributes/Results</li><li>▪ Trading</li><li>▪ Product Viability</li></ul>

## Process – M-REF (qualitative)

The qualitative aspects of M-REF are key in evaluating managers.

- **On-site visits / conference calls**

- Face-to-face interviews with investment management, executive management, compliance officers, and members of the trading team.
- GMR conducts hundreds of calls and on-site visits with investment managers each year.

- **Request for information**

- Data collection and review of key items related to philosophy, process, personnel, performance, and firm.



# Process – M-REF (quantitative)

Within M-REF, we apply a quantitative overlay to our qualitative analysis to validate or refute our findings.

We want to determine:

- How were the returns achieved?
- What risks did the manager take?
- What risk and return expectations should investors have?
- Did the manager adhere to its stated investment style?



# RiskOptics

Our proprietary RiskOptics process provides a multifactor, consistent framework for evaluating manager risk.

- Defines risk as not just volatility, but identifies other factors that could lead to “the potential for loss of capital.”
- Used to evaluate all of our managers, to determine if there are unexpected and/or outsized sources of risk.



# Vetting process

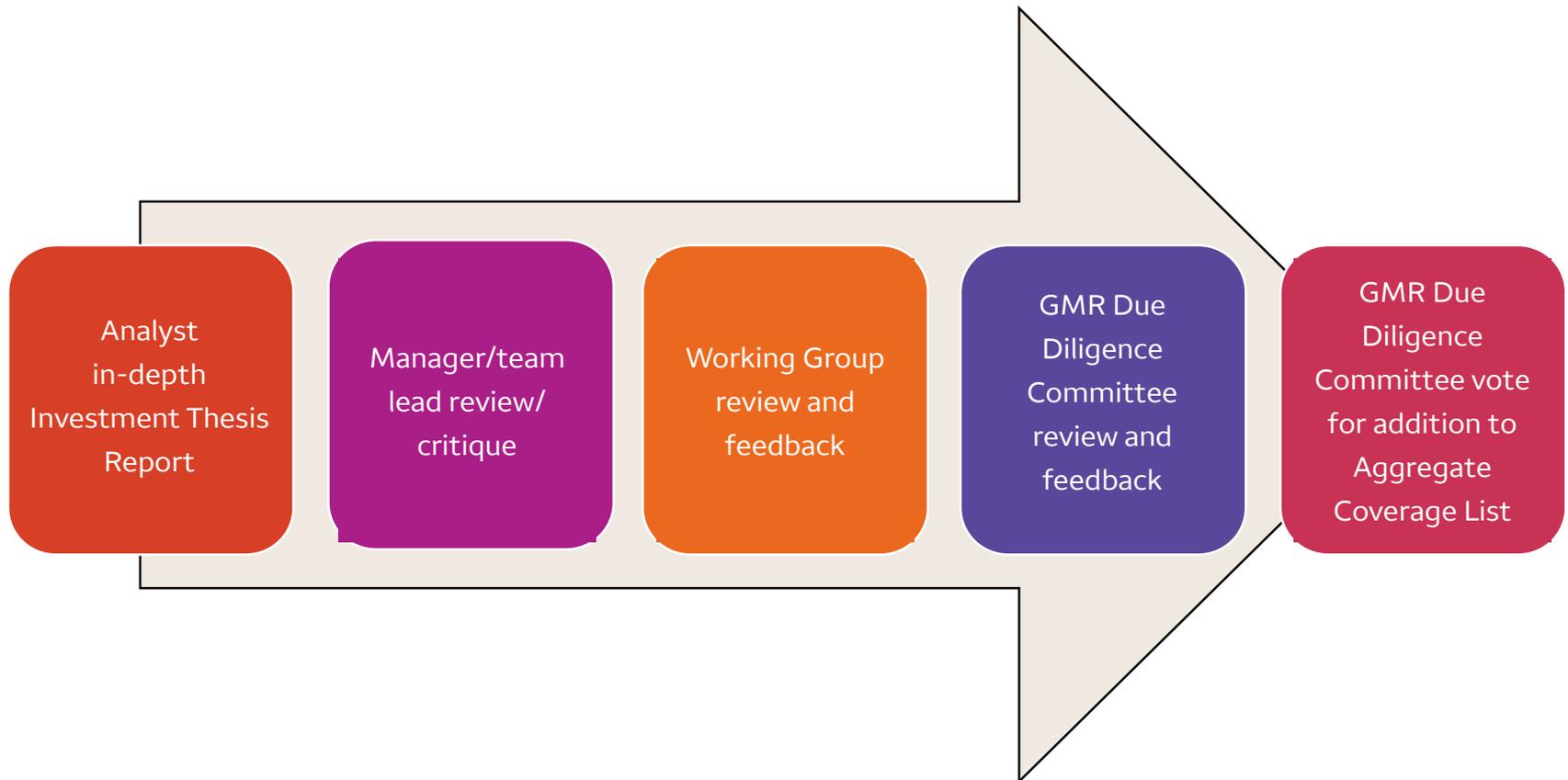
**GMR analysts use a multi-dimensional approach to combine quantitative and qualitative analysis into an Investment Thesis Report.**

Key components of Investment Thesis Report:

- Reasons for conviction and addition
- Current or potential concerns
- Investment personnel experience, depth, and role in the investment process
- Investment philosophy and process
- Risk management procedures
- Performance expectations
- Portfolio and return analytics

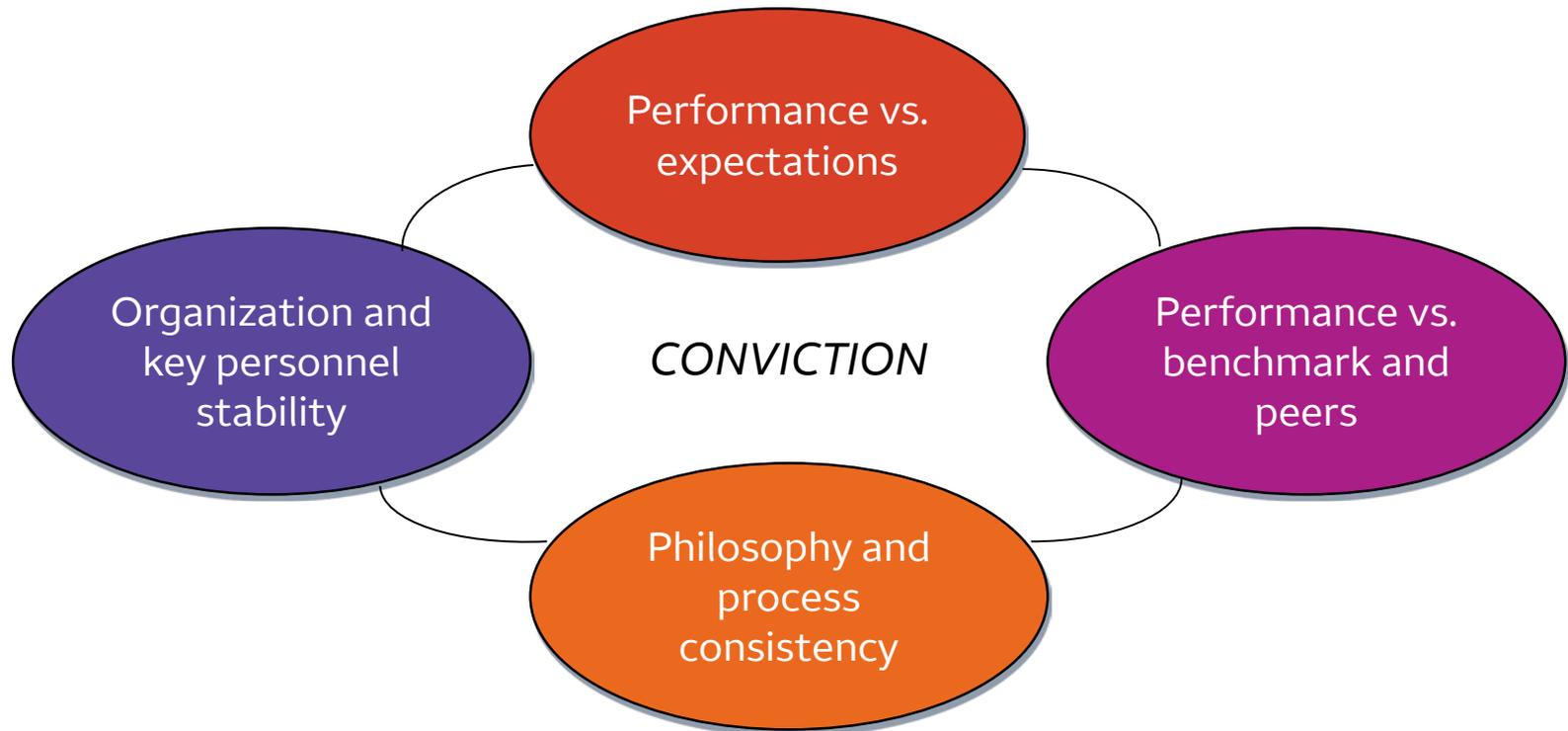
## Vetting process (continued)

We have multiple control points in our decision-making structure.



# Ongoing due diligence

A recommendation is not earned just once. Managers must continue to positively distinguish themselves for GMR to have high conviction and maintain a spot on the Aggregate Coverage List.



# Ongoing due diligence (continued)

Quarterly Scorecard review and private placement review process	Revalidate investment thesis quarterly on short-term and longer-term underperformers. Additional process applied to all private placement vehicles.
Semi-annual conference calls	Discuss performance attribution, expectations, positioning, and outlook with portfolio management personnel.
Request for information	Regular updates regarding changes to organizational structure, process and philosophy, compliance/legal and disaster recovery.
Bi-annual on-site visits	Meet with Investment Team, Compliance, and Trading in their offices to further assess our level of conviction.
Investment Research Reports	Detailed description of firm, investment team, process and philosophy, and performance expectations.
Event-driven manager interactions and publications	Calls and on-site visits prompted by an unexpected event that requires attention and communication.

# GMR publications

GMR writes hundreds of publications every year to communicate about manager updates, performance analysis, status changes, and investment thought leadership.

## Investment Research Reports

## Research Alerts

## Research Updates

## Topical Reports

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Investment Institute

RESEARCH UPDATE

Global Manager Research

December 1, 2020

**Key Takeaways**

- First State Social Fund (the Fund) is rated Recommended by Global Manager Research (GMR).
- The Fund is a social equity strategy using a bottom-up, deep-value approach. The Fund focuses on Benjamin Graham and Warren Buffett's value-oriented styles to identify potentially attractive companies.
- GMR believes the Fund has a unique, flexible investment process due to its eclectic nature, and its ability to invest in fixed income, gold, and cash as permitted by the prospectus.

**Fund basic facts**

Fund Inception: 07/13/2008

Fund Assets: \$43.4B (\$101.02)

Portfolio manager: Matthew McLerran, Portfolio Manager

Sub-style: Deep Value

GMR Investment: MSCI World Index

GMR Rating: Recommended

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**WELLS FARGO**  
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RESEARCH ALERT

Global Manager Research

December 7, 2020

**Key Takeaways**

- Loomis Sayles is a Company LP (Loomis or the Firm) announced that Daniel Davis, CFA, would be relinquishing portfolio management responsibilities effective March 1, 2021. At that time, Paul will be replaced as a listed portfolio manager (Loomis Sayles Bond Fund and the Loomis Sayles Strategic Income Fund (the funds)).
- Ernie Stokes, Matthew Egan, CFA, and Brian Kennedy remain as PMs on the Funds. Additionally, Paul will remain with the Firm and be eligible to be an investment team's a senior advisor capacity.
- Global Manager Research (GMR) believes that the investment team for the Funds remains experienced, solid, deep, and well-resourced even with Paul relinquishing PM responsibilities. We maintain our Recommended ratings for the Funds.

**Impacted Funds: Loomis Sayles Bond Fund (LDBOND), Loomis Sayles Strategic Income Fund (MFRFX, MFRNX, MFRVX)**

**Overview**

Loomis investment advice to the Funds, has announced that Dan Paul will leave PM responsibilities for the Funds effective March 1, 2021. Paul has been relinquishing PM responsibilities over the course of higher credit quality focused mandate in 2018 and received a substantial separate account responsibility in 2019. March 1, 2021, also marks the 41<sup>st</sup> anniversary of Paul joining the Firm. Retireability, as a member of the Firm, will not be subject to review and is expected to continue as a senior advisor to the investment team and remain the vice chairman of the Firm.

Ernie Stokes and Matthew Egan, CFA, have worked together with Paul since 2006. Stokes and Egan, who joined PMs for the Funds in 2006, have already worked as PMs for the Funds in June 2014, after retiring to provide management and trading time. Stokes, Egan, and Kennedy each have more than 30 years of investment experience. The PMs have

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RESEARCH UPDATE

Global Manager Research

December 8, 2020

**Adam Usdin**  
Investment Analyst

**Impacted Fund: Loomis Small Cap Value Fund (DEVX, DVGRK)\***

**Overview**

Global Manager Research (GMR) was recently informed that Chris Beck has announced his intention to retire at the end of July 2021. Beck is the Chief Investment Officer (CIO) for Macrocap Investment Management's US Small-Cap Value Fund (the Fund). The fund is managed by the investment team. Each member of the Team has certain sector coverage responsibilities. With the decision-making process in collaboration, the final decision is ultimately made by Beck and the Team member who thought the best.

Subsequent to Beck's retirement will be Henry Mollen-Carroll and Kent Madden. Carroll and Madden are both currently Senior Portfolio Managers (PMs) and have over 14 years of tenure on the Team. Beck plans to remain fully engaged through his last investment date, although the Team anticipates that the transition to Carroll and Madden is expected to be largely completed by the end of 2021. In addition, Beck co-owns the Francisco and Free Estate services along with Scott Pili Giza (Pili Giza Family) and continues to cover these services going forward. The Team expects to add additional future resource prior to Beck's departure.

**GMR Assessment**

While GMR believes that Beck has been instrumental to the Fund's success, we maintain our Recommended rating on the Fund at this time for several reasons. First is the long and solid track that Beck gave into his retirement responsibilities. With roughly 20 months between the public announcement and his actual departure, we believe Beck has given the Team time for a gradual transition. Importantly, we expect Beck to remain very engaged, especially through the end of 2021, and as we expect the Fund to continue to have Beck's input on it in the near term.

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TOPICAL REPORT

Global Manager Research

December 14, 2020

**Carl J. Tatum**  
Investment Analyst  
Sustainable Investing Lead

**Key takeaways**

- While not openly discussed, one of the unintended consequences of the rising popularity of green passive investment products is a broad decline in diversity of thought.
- How this plays out in the long-term is unknown, but some astute investors seeking for portfolio diversification are looking beyond just asset class, market capitalization, or style – and are also emphasizing the diversity of thought.
- Diversity of thoughts is one element that Global Manager Research (GMR) has long viewed favorably when considering investment products and in our view, offers a key element of successful active investing.
- Diversity of thought from successful active managers can come in many forms, but one that is underappreciated area of diversity of thought comes from partnerships with diverse-owned firms and diverse-led strategies. These managers often bring a different perspective to the table, which can be valuable for full portfolio diversification.

**The hidden consequences of passive investing leading to the decline of diversity of thought**

The increased adoption to passive investment products has been extensive and well-documented. Our own analysis shows that in recent years, there has been a dramatic increase in asset flows into passive products, while asset flows into active products has declined steadily. As can be seen in Figure 1 on the following page, asset flows into active products now represent only a fraction of those into passive. What is more, according to data from Morningstar, in terms of assets under management, 81% of the top-10 and 91% of the top-100 largest investment products in the United States are passive products.

Passive products offer many benefits, including low fees, access to broad chunks of the market, and general top-to-top diversification in terms of asset class and style. But focusing just on these benefits may not be capturing the full implications and consequences of passive investing. What is being ignored and talked about very lightly is passive investing's impact on active asset class and investment strategy diversity of thought.

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# Manager removal

GMR analysts use a mosaic approach to determine the ongoing standing of managers on the Aggregate Coverage List. Some of the key items considered in the removal decision are:

- Key personnel departures
- Organizational changes
- Significant changes to firm and investment product asset base
- Performance inconsistent with our expectations
- Changes in investment process or philosophy
- Compliance related issues

# GMR value proposition

**Effective manager research requires immense data, skilled analysis, and vast amounts of time. These demands are too great for most individuals and many firms.**

GMR offers:

- Consistent approach developed and owned by one of the most stable, well-managed financial institutions in the world
- Dedicated manager research team with global footprint
  - Highly experienced and credentialed analyst team with diverse backgrounds
  - Hundreds of calls and in-person meetings a year around the world
- A robust investment evaluation framework focused on return and risk
- Timely communication via written publications
- Analyst availability to client-facing investment professionals
- World class institutional investment research technology and databases

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